

Letter from America

Reforming US Health care

In this timely letter, Angus Deaton reviews the prospects for reform to the US health care system — and warns us not to expect too much too soon.

ANNE CASE AND I spend August in southwest Montana, one of America's most remote states. We rent a small house on a bluff overlooking the Madison River rightly famed for its abundance of wild trout, and where the loudest noise is the trumpeting of the two sandhill cranes whose annual visit is synchronized with our own.

Two weeks ago, both we and the cranes were mightily surprised when a fighter jet screamed down the valley, at about the level of our deck, followed by a flight of three identical helicopters that slowly made its way down the valley.

Having cleared the Madison, Gravelly, and Tobacco Root ranges of mountain men and militias, the local counterparts of the Taliban, the Madison River was deemed safe for President Obama's fly-fishing lesson. As dedicated aficionados,

we had no trouble understanding why the President should want to be a fly-fisherman, although if we had even one helicopter at our disposal, we should have been high in the mountains fishing virgin lakes for giant cutthroat trout.

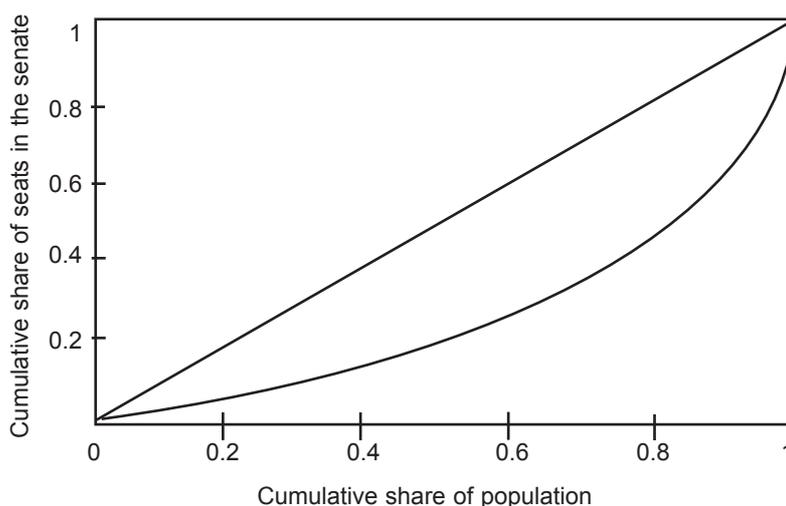
But although Obama did indeed go fishing, trout were perhaps less on his mind than healthcare reform, courtesy of America's wildly unequal system of political representation. If we assign to each person a senate vote equal to the number of his or her senators divided by the number of people who share them, we can draw a Lorenz curve for senate votes. I exclude the District of Columbia which has no senators, though its population is larger than Wyoming which, like the other forty-nine states, has two. The horizontal axis shows the cumulative share of population, and the vertical axis the cumulative share of seats in the senate.

The Gini coefficient is 0.48, which is not very different from the coefficient for income in the US. The big states — California, Texas, New York and Florida — are the 'poorest' in senate seats per head; they have eight percent of the votes but contain just under a third of the national population. Montana, with less than one third of one percent of the population, has two percent of the votes, and is thus over-represented by a factor of six. Alaska and Wyoming do even better in their senate shares — and the fly-fishing is outstanding in both — but neither would

have been so welcoming to the President (think Sarah Palin and Dick Cheney). More importantly still, the senior senator for Montana is Max Baucus, a Democrat who chairs the senate finance committee, as well as the 'gang of six' senators who have emerged as the likely 'deciders' on healthcare reform. These senators, three Republicans and three Democrats, all

declared moderates, are all members of the Senate Finance Committee. Between them, they represent 2.8 per cent of the American population, and a very much smaller percentage of African Americans and Hispanics.

The structure of the current round of healthcare reform owes much to the failure of the attempt by the Clintons. Academics and healthcare experts — including several economists — were well represented on Hillary Clinton's task force, which presented a plan to a Congress that had little role in shaping it and little interest in passing it. This time, the White House is presenting only loose guidelines, and is letting the politicians work it out for themselves. Because financing reform is the hardest issue, and because the senate is historically the place where reform is made or unmade, the senate finance committee is the key. All this undoubtedly increases the likelihood of



something being accomplished, but it has also had the effect of minimizing the role of the extensive research and thought that has gone into healthcare reform by academics and others over the long years in the Bush. Of course, the many economists in DC who are working for the administration are involved in the negotiations, although their work is not public. An exception is Doug Elmendorf, a fine economist who is currently head of the non-partisan Congressional Budget Office, which is charged with costing legislative proposals. The Princeton economics department is having difficulty covering its applied teaching this year in the face of five defections to Washington, and as we teach their courses, we trust they are bringing good economics to the debate.

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Even so, the dominant role of the senate has meant that the single-payer system which has the best chance of reining in costs, and which would eliminate most of the current administrative expenses of the insurance companies, was never allowed on the table. (According to the Center for Responsive Politics, Baucus received more than \$750,000 in 2008 from health insurers, and another \$2.7 million from the rest of the industry, although he is certainly not the only senator to be so funded, and both presidential candidates accepted much more. Polls also show Montana democrats are broadly in favor of public health care.) Also not on the table is the voucher scheme developed in recent years by Vic Fuchs, America's most prominent health economist, which would break the stranglehold of employer-provided care as well as providing incentives for cost control. And although proposals to end tax breaks for employer-provided healthcare have been debated, they have little chance of implementation in a reform designed by politicians, whose constituents believe that employer provided healthcare is a free good, even in the face of evidence that healthcare costs have been a major limitation on the growth in median wages. The fact that the insurers, the doctors, and the pharma-

ceutical companies all favor the current plans surely bodes ill for hopes of reducing costs. It is ironic that the Fuchs plan was developed jointly with Zeke Emanuel, an oncologist and bioethicist, with doctorates in both medicine and philosophy, who is uniquely well placed to influence the reform. He is currently Special Advisor for Health Policy to Peter Orzag, Director of the Administration's Office of Management and Budget, and is a brother of President Obama's Chief of Staff, Rahm Emanuel, two of the central players in the current negotiations. (According to the *New York Times*, Rahm Emanuel has also recently been fly-fishing in Montana but presumably without the fighter jet or the helicopters.)

And what of the President's fishing trip? The weather was so bad that he had to abandon the Madison River and go instead to the East Gallatin. His guide for the afternoon, Dan Vermillion of the Sweetwater Fly Shop of Livingston, reported that Obama, a talented neophyte who made contact with several fish, brought none to the net. He reported that 'You could say he pardoned all the fish but, honestly, Obama couldn't set the hook.'. On health reform, one can only hope he does better, though if he brings a fish to the net it seems likely to be a most unappetizing creature. Perhaps the best that can be hoped for is that the current round will set the stage for real reform the next time, either by establishing a public plan as a Trojan horse for a single payer system, or because, as argued by my colleague Uwe Reinhardt, covering the uninsured will eliminate the cross-subsidization in the current system that makes it impossible for government to control costs. Otherwise, we shall have to wait until even more people are unhappy than is currently the case. Even then, reform will still have to battle the deep inequality that so many people count for so little while so (amazingly) few dollars from the industry count for so much. American healthcare may be the most expensive in the world, but political influence still comes dirt cheap.

GES creates new link with economics profession

The UK's Government Economic Service has created a Board of Professional Development. The Board is hosted by the National School of Government. It consists of economists from across government and academics who have substantial experience of working with the GES, including the Chair of CHUDE. It is a delegated sub-Board of the GES Main Board and is Chaired by a GES economist or an academic in alternation. Its remit is to be a bridge between academia and professional practitioner

economists in government and to advise on all matters pertaining to the supply and development of economists in government. A list of its GES members will be issued for academics to use as government departmental contacts for research enquiries.

Editor's note:
A statement from the Board appears below on p.7